LATIN AMERICA ADVISOR

A DAILY PUBLICATION OF THE DIALOGUE

www.thedialogue.org

Tuesday, April 26, 2022

FEATURED Q&A

Will War in Ukraine Weaken Economies in Latin America?

Some Latin American countries could see severe economic effects related to the war in Ukraine. Ukrainian firefighters are pictured in February in Kyiv at the site of a residential building attacked by Russian forces. // Photo: Voice of America.

Q **The war in Ukraine could devastate the economies of some developing nations, including more than a dozen in Latin America and the Caribbean, a United Nations task force said on April 13. The war is "supercharging" crises involving food, energy and finance in countries that were already struggling because of the Covid-19 pandemic and rising global interest rates, the report said. What Latin American and Caribbean economies will be most affected by the war in Ukraine, and what factors will be most damaging to them? To what extent is the war in Ukraine slowing economic growth in Latin America as compared to central bank tightening? What policies should commodity-exporting countries of the region put in place in order to capitalize on a potential windfall in revenue while at the same time addressing hunger and inflation?**

A **Ernesto Revilla, head of Latin American economics at Citi:** "The Latin American idiom 'we were few and the grandmother gave birth' applies to global shocks affecting our region: just what we needed. Each shock of the last two years—the pandemic, the slowdown in China, a Fed hiking cycle and now the war in Ukraine—if faced by itself would have been challenging enough. Nevertheless, we are facing them all at once. The resulting impact is stagflationary: growth forecasts for the region are falling while inflation forecasts increase. There are two immediate concerns. First, the policy response. Should monetary and fiscal policy focus on the diminished growth (high unemployment) problem, or on the inflationary one? There is usually a tradeoff between the two. In Latin America, central banks have continued

Continued on page 3

TODAY'S NEWS

POLITICAL

U.S. Judge Blocks Order Ending Border Rules

A U.S. federal judge temporarily blocked the administration of U.S. President Joe Biden from ending a border restriction put in place two years ago that virtually shut down the U.S. asylum system at the country's border with Mexico.

Page 2

POLITICAL

Mexico Supreme Court Strikes Law on Cellphone Data

Aimed at fighting crime, the law would have required mobile phone service providers to collect biometric data such as fingerprints or eye scans from customers.

Page 2

ECONOMIC

Brazil Sees Rising Level of Consumer Confidence

Consumer confidence in Brazil rose 3.8 percent in April to its highest level since last August, according to the latest index from the Getulio Vargas Foundation. Viviane Seda Bittencourt leads the survey.

Page 2

Bittencourt // File Photo: FGV.

POLITICAL NEWS

U.S. Judge Blocks Order Ending Border Restrictions

A U.S. federal judge in Louisiana on Monday temporarily blocked the administration of U.S. President Joe Biden from ending a border restriction put in place two years ago that virtually shut down the U.S. asylum system at the country's border with Mexico, CNN reported. In the order, Judge Robert R. Summerhays of the Western District of Louisiana halted the White House's order to end the so-called Title 42 public health restriction that then-U.S. President Donald Trump put in place in 2020. The order had been set to be lifted on May 23. "We applaud the court for approving our request for a temporary restraining order to keep Title 42 in place," Arizona Attorney General Mark Brnovich said in a statement, CNN reported. "The Biden administration cannot continue in flagrant disregard for existing laws and required administrative procedures," he added. Arizona was among several states that had petitioned the court to keep the restriction in place. "This is a huge victory for border security, but the fight continues on," Attorney General Eric Schmitt of Missouri, which had also joined the lawsuit, said in a tweet. In a separate case, Texas was seeking to keep Title 42 in place, and a federal judge in that state has not yet ruled on that case, CNN reported. Critics of Title 42 said they would continue pushing for it to be lifted. "The Trump-initiated Title 42 was part of his anti-immigrant hate and fear agenda that used the pandemic as an excuse to deny asylum seekers their legal rights to due process. It must end now," said Rep. Raúl Grijalva (D-Ariz.), The Hill reported. The order by Summerhays, whom Trump appointed, is unlikely to change the situation at the border as the restrictions remain in place, CNN reported. The Biden administration has used Title 42 more than 1.5 million times to quickly expel migrants without giving them the opportunity to request asylum, The Hill reported. [Editor's note: See Q&A on the possibility of immigration reform in the United States in the March 10 issue of the Advisor.]

> **"The Trump-initiated Title 42 was part of his anti-immigrant hate and fear agenda."**
> **— Raúl Grijalva**

ECONOMIC NEWS

Brazil Sees Rising Level of Consumer Confidence: Survey

Consumer confidence in Brazil rose 3.8 percent in April to its highest level since last August, according to data from a monthly index that the Getulio Vargas Foundation, or FGV, released Monday. Despite the positive result of the perspectives on the economy and family finances, which rose across most income brackets, the intention to purchase durable goods remains weak and with an uncertain trend, according to FGV. "The positive results this month seem to be related to the end of the outbreak of the Omicron variant [of coronavirus] and the announcement of a package of measures to alleviate the pressure of inflation and interest on family finances," said Viviane Seda Bittencourt, who leads the survey at FGV. "There was a decrease in pessimism regarding the job market, but inflation and high interest rates still worry families, who remain cautious about making high-value purchases," she added. Moreover, the latest consumer confidence index, at 78.6, is still well below the 87.8 reading posted in February 2020, the last pre-Covid figure, according to Goldman Sachs economist Alberto Ramos. "Rising inflation, increasingly exigent credit conditions and still-soft labor market backdrop are likely to dampen household spending," Ramos told clients in a research note Monday, although the government's short-term fiscal transfers and tax cuts will help buoy private consumption, he noted. [Editor's note:

NEWS BRIEFS

Mexico Supreme Court Strikes Law on Mobile Phone Data Collection

Mexico's Supreme Court on Monday struck down a law passed last year that would have required mobile phone service providers to collect biometric data such as fingerprints or eye scans from customers, the Associated Press reported. The court said the law was too invasive of personal liberties and noted that other measures could be taken to cut down on crimes involving phones like kidnappings and extortions, the motivation behind the measure.

Brazilian Court Upholds License Suspension on Gold Mine in Amazon

A federal court on Monday voted 3-0 to uphold the 2017 suspension of an environmental license for what would be the largest open-pit gold mine in the Brazil's Amazon rainforest, the Associated Press reported. The decision is a blow to Belo Sun Mining, a Canadian company with a portfolio of gold-focused properties in Brazil. Local Indigenous groups say they were not consulted on the project, which they fear will damage fish stocks in nearby rivers. Belo Sun can appeal the decision to a higher court.

Peru's President Seeks Referendum to Rewrite Nation's Constitution

The administration of Peruvian President Pedro Castillo on Monday presented a bill to Congress aimed at putting a referendum on the ballot asking voters whether they wish to convene a constituent assembly to draft a new constitution for Peru, state news agency Andina reported. If approved, the measure would be presented to citizens through the referendum during the regional and municipal elections scheduled on Oct. 2. [Editor's note: See related Q&A in the April 11 issue of the Advisor.]

See related **Q&A** in the March 18 issue of the Advisor.]

BUSINESS NEWS

Doosan Škoda Launches Steam Power Plant in Chile

Doosan Škoda Power said Monday it had launched a 110 MW steam turbine within a large solar power plant in the Atacama Desert. The steam turbine, which uses CSP technology that allows the facility to generate power from the sun 24/7 in a same manner as a conventional power plant, will produce enough electricity to serve some 380,000 households in the Antofagasta Region in Chile. The facility now can store thermal energy and transfer it to electrical energy via the steam turbine when needed. "This technology has potential to possibly replace conventional power sources such as coal and gas fired power plants in the future and help the transition from fossil fuels to renewable energy," the Czech company said.

Jamaica Plans Major Highway Expansion

Jamaican officials have announced plans for a major road infrastructure expansion that could become the country's biggest public investment project in recent history, the Jamaica Observer reported Monday. Initial financing for the highway project will come from International Finance Corporation, the private sector arm of the World Bank Group, which signed a memorandum of understanding last week. "It's the biggest public investment in Jamaica's history," Nigel Clarke, Jamaica's minister of finance, told the newspaper. The project, which is expected to improve traffic flow between Ocho Rios and Montego Bay, could cost between $600 million and $800 million to complete. The planners expect the project will be opened internationally for competitive bids.

FEATURED Q&A / Continued from page 1

hiking rates to fight inflation in spite of weak economies, as they cannot risk unanchored expectations. This has opened the door for further fiscal spending to try to smooth out the impact of increasing food and energy prices to consumers. This will add to fiscal challenges down the road. Second, stagflation breeds political discontent and unrest. Latin America can hardly afford further political uncertainty. Ukraine and Russia are far away geographically and commercially from Latin America (there is little direct trade), but the war's impact will be felt mostly through high commodity prices and a more hawkish Fed. Commodity importers and economies with weaker fundamentals are at higher risk. Commodity exporters should use the transitory windfalls to support more vulnerable populations and strengthen buffers for the eventual volatility."

A **Aida Caldera Sanchez, head of division for the OECD Economics Department:** "The world has felt the impact of Russia's invasion of Ukraine through slower growth and higher prices, including in Latin America and the Caribbean (LAC), even if the region has fewer direct connections to Russia and Ukraine than other regions. Some countries in the region (for example, oil-exporting Colombia and Venezuela) could benefit from rising commodity prices. However, accelerating inflation, slower global growth and depreciating currencies could offset some of the commodity price benefit. The main effect of the war for LAC's economies thus far is through higher inflation and policy tightening. The war has exacerbated inflationary pressures that were already present in many economies, by increasing energy and food prices. Inflation rapidly increased in Latin America's largest economies in 2021, driven by global factors, including higher commodity and import prices, and in some cases domestic factors, such as a strong recovery of demand. This increase in inflation that was initially driven by surging food and energy prices became broader over time, expanding to other elements in the consumer basket. Central banks in the largest economies (Brazil, Chile, Colombia, Mexico and Peru) swiftly tightened monetary policy when inflation began rising in 2021. This tightening is expected to continue over the coming months to bring inflation back to target. Higher inflation usually weighs more on the poorest who lack savings to smooth their consumption over time. Also, food and energy weigh more on the consumption basket of the lowest income households. This could lead to a widening of already high income inequalities in the region and social discontent. Targeted social protection measures such as cash transfers, food or in-kind transfers, already used in some countries in the region during the pandemic, could be an efficient instrument to mitigate the inflation impact and improve fairness.

> **"The war has exacerbated inflationary pressures that were already present in many economies..."**
> **— Aida Caldera Sanchez**

A **William F. Maloney, chief economist for the Latin America and Caribbean Region at The World Bank:** "Even if the war ends tomorrow, Latin America and the Caribbean will continue to be hit by shock waves propagated through multiple channels that have already led us to lower growth forecasts by 0.4 percent for 2022. Oil and gas supplies will remain restricted, and the fact that futures prices do not foresee more dramatic price hikes likely reflects China's Covid-induced slowdown, which will also moderate copper and other metals' price rises. The fall in grain exports from Ukraine and Russia has triggered global food shortages that may of-

Continued on page 4

FEATURED Q&A / Continued from page 3

fer opportunities to regional grain producers but may also worsen as shortfalls in fertilizer exports from Russia—particularly to Brazil in our region—dampen future harvests. The Caribbean, which is particularly dependent on imported food and energy, will be acutely affected, but protests against higher energy prices in Peru suggest that more generally, regional governments may again need to ramp up the targeted transfer programs of the pandemic era, but in a context of much reduced fiscal space. The higher advanced country interest rates to address the same inflationary pressures will both complicate debt servicing and lead local monetary authorities to take restrictive measures to defend their currencies, potentially leading to stagflationary scenarios. Over the longer term, the emerging Western wariness around China and its closer relations with Russia may undermine the global trading system but also offer LAC opportunities for renewed insertion in global value chains. Further, concerns about energy security will intensify the search for renewable sources in which, as our recent semi-annual report discussed, LAC has a tremendous green comparative advantage."

A

Adriana Arreaza Coll, director of macroeconomic studies at CAF: "Latin America and the Caribbean registered one of the most severe output contractions globally in 2020, causing poverty and inequality to rise to levels not seen in more than a decade. Following the solid rebound in 2021, we expect a significant slowdown in growth in LAC this year. The war in Ukraine poses additional risks to the regional recovery. The impact of soaring commodity prices on LAC countries and financial tensions will be transmitted through three main channels. First is the effect of higher commodity prices on external accounts. The outcome will vary depending on whether countries are net exporters or importers of energy and food. Net exporters in South America will benefit from more favorable terms of trade, improving current account balances and generating additional revenues for the treasury that may stimulate demand, growth and employment. The impact on growth may be more moderate because external financing needs are narrower and international reserves are higher, so the need to adjust domestic demand is lower. The second transmission channel is international financial markets. The war-generated confidence shock in markets adds to the normalization of monetary policies in advanced economies. Regarding sovereign spreads and currencies in Latin America, we see capital flows into the region as some investors shift away from the countries in conflict to other emerging economies. The situation may change if the conflict escalates, generating a more pronounced flight to safe assets. Finally, there is inflation. The rise in energy and food prices reduces the purchasing power of households, doing nothing to reverse rising poverty and inequality in LAC. The shock mounts on accumulated inflationary pressures that had already prompted central banks across LAC to increase interest rates since last year."

> **"The rise in energy and food prices reduces the purchasing power of households..."**
>
> **— Adriana Arreaza Coll**

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at **gkuleta@thedialogue.org**.

LATIN AMERICA ADVISOR
is published every business day by the
Inter-American Dialogue ISSN 2163-7962

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Leticia Chacón
Reporter
lchacon@thedialogue.org

Mark Kennedy
Reporter
mkennedy@thedialogue.org

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at
1155 15th Street NW, Suite 800
Washington, DC 20005

www.thedialogue.org

Subscription inquiries are welcomed at
ebrand@thedialogue.org